



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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## Unemployment Is Up Under Republican Economic Policies

Dear Democratic Colleague:

A frequent claim by some Republicans in recent weeks is that the unemployment rate is down. Republicans even go so far as to say that the unemployment rate now is about the same as it was near the end of President Clinton's first term in 1996. Such a claim, while literally true, conveys an inaccurate impression. The attached charts provide some important perspective.

### **The Unemployment Rate Is Higher...**

The U.S. economy exited recession in March of 1991. But even so, the unemployment rate continued to rise for more than a year. In January of 1993, when President Clinton took office, the unemployment rate was 0.5 percentage point higher than it was when the recession ended.

Over the next eight years, the unemployment rate moved almost inexorably downward. Apart from a brief increase in the measured unemployment rate, which was expected and was caused by a change in the Bureau of Labor Statistics' survey methodology in 1994, the course of the unemployment rate was almost consistently down. In the late months of the second Clinton term, the unemployment rate even registered figures below 4.0 percent, which marked the lowest observed unemployment in almost 30 years.

The behavior of the unemployment rate in the Bush Administration has been almost diametrically opposite. President Bush inherited a historically low unemployment rate, which then rose consistently over the greater part of his term in office. Even after his recession ended in November of 2001, unemployment continued to rise. Finally, barely one year ago, the unemployment rate hit its maximum, and began to decline — but only modestly.

So if we look at the figures today, the Republican claim that "the unemployment rate is the same as when President Clinton sought reelection in 1996" is approximately literally true. In

August of 1996, the unemployment rate was 5.1 percent; by year end, it blipped briefly upward to 5.4 percent. In August of 2004 (the latest data available), the unemployment rate was 5.4 percent.

However, there is one crucial difference between 1996 and today: In 1996, President Clinton had *reduced* the unemployment rate that he had inherited by two percentage points. Today, President Bush has *raised* the unemployment rate that he inherited by almost two percentage points. And that is true even after the limited improvement in the unemployment rate over the last year or so.

### **...And the Unemployment Rate Understates the Weakness of the Job Market**

And even that reduction in the unemployment rate overstates the real underlying improvement in the job market.

To compute the unemployment rate, statisticians at the Bureau of Labor Statistics need a realistic count of those who are unemployed. Your five-year-old son or daughter does not have a job, but neither is he or she realistically unemployed. Likewise, a full-time housewife or house-husband is not unemployed; he or she does not seek a job outside the home. To have meaningful unemployment statistics, the statisticians have to draw a line. And long-standing experience has shown that the place to draw that line is where adults are actively (though unsuccessfully) seeking work.

Although “actively seeking work” provides the most practical and workable definition of the unemployed, it can distort the true condition of the job market. When the economy is weak, people who truly want to work can exhaust their list of potential employers, and simply stop looking out of discouragement. At such times, the most workable count of the unemployed can yield a number that is significantly lower than the number of adults who truly want to work but cannot find jobs. For that reason, the unemployment rate will understate the true level of need and hurt among families.

One way to get a sense of the true underlying condition of the job market is to measure the “labor-force participation rate,” which is the percentage of the adult population who are either employed or actively seeking work. If people stop looking for work when they come to believe that there is no prospect of finding it, the labor-force participation rate goes down. The participation rate therefore provides a check on the meaningfulness of the unemployment rate, which paradoxically goes *down* when people become so discouraged that they stop looking for work.

Over the very long term, virtually the entire last century, the labor-force participation rate rose, as adult women became more and more consistently involved in the work force. There was a substantial surge during World War II, and after the war, the growth only continued. However, there were downturns during recessions. The attached chart shows that the labor-force participation rate dropped in the 1990-1991 recession. When President Clinton took office in 1993, labor-force participation was no higher than it was at the beginning of the recession. However, over the first half of the Clinton Administration, participation grew consistently (with

a measurement blip after 1994 changes in statistical procedures), and the rate hovered around its highest levels ever in the last three years of the second term.

That progress has been reversed under the Bush Administration. Participation has dropped almost consistently over this entire presidential term. Right now, the labor-force participation rate is back down — to a level even lower than what President Clinton inherited when he took office in January of 1993.

This closer look at the labor market yields two key lessons. First, the current unemployment rate significantly overstates the strength of the labor market. As one prominent private-sector economic forecaster said recently in a television interview, making reference to the unemployment rate, we currently have something much more like a seven-percent job market than a 5.4 percent job market.

And second, those who look at the recent limited improvement in the unemployment rate and assume that it will continue, or even accelerate, are missing the key role of participation in the measurement of unemployment. Even if employment conditions were to improve, there are literally millions of people who are now not looking for work who would begin looking, and therefore would join the measured labor force, and would push the measured unemployment rate *upward*.

Thus, we have a stark contrast between the job market that President Bush inherited when he took office, and the job market that he leaves us at the end of his term. In 2001, he inherited labor-force participation near record highs, but an unemployment rate that was still near historic lows. Now, we have significantly lower labor-force participation, but an unemployment rate that is almost two percentage points higher. And under the President's stewardship, the unemployment rate has gone *up*, and labor-force participation has gone *down*. So the job market is not as strong even as the current modestly improved unemployment rate would suggest.

Sincerely,

/s

John M. Spratt, Jr.

Ranking Democratic Member

# Bush Unemployment Wipes Out Democratic Progress



# Labor-Force Participation Is Down Under Republican Policies

